

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY**  
**Jefferson County, Washington**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. The District Should Adequately Document All Claim Settlements

In our audit for the years 1990, 1991, and 1992, we reported the district had provided reduced water meters charges and had not billed for water service on illegal connections at One Hawkeye Park, a residential mobile home park owned by Bruce Seton. Since our last audit, the district recovered \$171 for the water service from the illegal connections. However, the total value of the services provided was never calculated. The amount recovered was based solely on information provided by Mr. Seton. The district had no records of the connections and made no attempt to determine when the connections were made.

The district also settled with Bruce Seton for \$2,236 for the cost of the 43 water meters which would have cost other district customers \$5,650. The settlement did not include the costs for setting the last five meters, which the district has not yet determined.

The former district manager wrote to Bruce Seton and stated that the first 20 meters were free as they were to be used for district studies and gave a reduced price on the other 23 meters. However, our audit revealed no study was ever made and there was no indication that the district ever intended to perform a study. Furthermore, the manager had no authority to set district rates and no plausible explanation was given for the reduced meter rates.

RCW 43.09.200 states in part:

. . . The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

The district's board of commissioners did not collect the full amount due from Bruce Seton because they thought the cost of legal fees would be too high. However, the district had no documentation to support that claim. Our audit revealed that the district should have recovered at least \$5,650 plus the full value of the water services provided and the cost of setting the last five meters.

We recommend the district adequately document all claim settlements.

2. The Former Manager Of The District Should Repay Excess Benefits And Wages

Bob Leach, the former manager of the district resigned effective on January 20, 1994. However, he continued to receive medical benefits through April 13, 1994, at a cost of \$415.25, by using his accumulated vacation leave. Our audit revealed that he was also overpaid eight hours of accrued vacation in the amount of \$184.64.

The Washington State Consitution, Article 8, Section 7 states in part:

No county, city, town, or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation . . . .

The district's employee's manual, Section 6, H. Compensation Upon Termination states in part:

When an employee voluntarily terminates employment with the District, the employee shall receive the following compensation . . . 3. A lump sum payment at the employee's regular wage for accumulated sick leave and vacation . . . .

The district commissioners should have been aware of these requirements and followed them.

We recommend that the district recover the excess benefits and wages paid to the former manager in the amount of \$599.89.

3. The District Should Comply With Foreclosure Proceedings Of Delinquent Local Utility District Assessments

The district has delinquent assessments totaling \$24,149, including interest and penalties as of January 1995. Our audit revealed six local utility improvement district (LUD) assessments that were delinquent more than two years, of which one was delinquent for 14 years.

RCW 54.16.130 states in part that:

... enforcement of local assessment liens hereunder, shall be governed, as nearly as may be, by the laws relating to local improvements for cities and towns . . . .

RCW 35.50.030 states in part that:

If on the first day of January in any year, two installments of any local improvement assessment are delinquent, or if the final installment thereof has been delinquent for more than one year, the city or town shall proceed with the foreclosure of the delinquent assessment or delinquent installments thereof by proceedings brought in its own name in the superior court of the county in which the city or town is situate . . . .

District Bond Resolution 89-291, Section 10, Bond Covenant (F) states in part:

If on the first day of January in any year, two installments of any LUD Assessment are delinquent, or the final installment of any LUD Assessment has been delinquent for more than one year, the District shall proceed with the foreclosure of the delinquent installments thereof in the manner provided by law.

Failure to initiate foreclosure proceedings leaves the district with no guarantee that all money will be collected for payment of bonds or debt.

We recommend that district officials comply with the provisions of RCW 35.50.030 and the bond covenants of District Bond Resolution 89-291 by initiating foreclosure proceedings against delinquent assessments or installments.

4. Assessments On Local Utility District (LUD) 5 Should Be Credited With Their Share Of Reserve Account As Payments Are Made

Water and Sewer Revenue Bonds of 1994 were issued to finance LUD 5. The bonds required the district to establish a reserve account to provide additional protection for bondholders. A reserve account for the bonds was established by adding the amount of the required reserve to the LUD 5 assessments. As assessments were paid, the district was required to credit the taxpayer for the amount of reserve included in payments as required by RCW 35.51.040. District records showed four of the assessments have been paid off and there have been partial payments on other assessments, however, the district has not given any credit on the paid assessments.

RCW 35.51.040 states:

. . . a sum in proportion to the ratio between the part of the original assessment against a given lot, tract, or parcel of land in a local improvement district assessed to create a reserve fund, if any, and the total original amount of such assessment, plus a proportionate share of any interest accrued in the reserve fund, shall be credited and applied, respectively, to any nondelinquent portion of the principal of that assessment and any nondelinquent installment interest on that assessment paid by a property owner . . . .

Management was aware of the above RCW requirements but chose to ignore them.

We recommend that the district give proper credit on payments of assessments on LUD 5. We also recommend that the district set up proper administrative procedures to administer LUD assessments.

5. The District Should Improve Its Accounting And Reporting Systems

The district's accounting system cannot produce accurate or complete financial records. The general ledger consists of only a trial balance of accounts with no detailed subsidiary records of the accounts. Without the subsidiary records, the accuracy and completeness of the general ledger cannot be determined.

RCW 43.09.200 states in part:

. . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source . . . kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

An adequate accounting system is necessary for management to make informed financial decisions. The system is necessary to set utility rates, control costs, and safeguard district assets.

District management seems unable to install and implement an accounting system which provides accurate, complete, and timely financial records.

We recommend the district install and implement an adequate general ledger accounting system.

6. Internal Controls Should Be Improved On The Accounts Receivable System

In our audit for the years 1990, 1991, and 1992, we recommended that the district implement and maintain a control ledger on the accounts receivable system. During the current audit of the 1993 period, we are reporting that the district has not implemented a control ledger on the accounts receivable system.

The concept of internal control as defined in the *Budgeting, Accounting Reporting System* (BARS) manual, based on criteria established by the U.S. General Accounting Office, states:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained and fairly disclosed in the reports.

The ultimate responsibility for good internal controls rests with management.

RCW 43.09.200 states in part:

. . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The account shall show the receipt . . . necessary to isolate and prove the validity of every transaction . . .

District management has not instituted the procedures as recommended in the past audits and during the current audit, and therefore, a complete and accurate control ledger is not being maintained. Without a control ledger, district management is not able to detect errors and irregularities in a timely manner, and cannot be assured that recorded revenues, charges and adjustments are accurate and complete.

We again recommend district management establish and maintain a complete and accurate control ledger on the accounts receivable system.

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**Schedule Of Federal Findings**

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1. The District Should Comply With Its Revenue Bond Covenants

In our audit for the years 1990, 1991, and 1992, we reported the district improperly transferred pledged bond proceeds of \$200,748 to their General Fund from their Revenue Bond Fund of 1981. The bond funds were pledged in the issuance of the Water Revenue Bonds of 1989.

Since our last audit, the district made additional improper transfers of \$18,698 in January 1994 and \$4,570 in July 1994. There were interest earnings of \$18,935 from the investments of the Bond Fund during 1994 which offset these transfers. As a result, the remaining \$4,333 was improperly transferred to the General Fund.

District Bond Resolution 89-291 states in part that:

So long as the [1989] Bonds are outstanding against the Bond Fund, the  
District shall set aside and pay into the Bond Fund all LUD assessments  
. . . .

District Bond Resolution 89-291 also states:

"LUD assessments" mean all assessments levied (including principal  
installments thereof and interest and any penalties thereon) in LUD  
No. 1 (except to the extent that the 1989 Refunding Bond Fund contains  
LUD assessments from LUD No. 1), LUD No. 3 and any LUD which  
may be created pursuant to State law . . . .

District management continues to ignore the bond covenants in the improper transfer of additional funds.

Since the 1989 bonds were purchased by the U.S. Department of Agriculture, FmHA, under the FmHA Water Systems Loan Program to rural communities, we have included the improper transfers of \$205,081 in the accompanying Schedule of Questioned Costs in this report.

We recommend that the district comply with the bond covenants of its outstanding bonds and resolve the \$205,081 of questioned costs with U.S. Department of Agriculture, FmHA.

2. District Officials Should Improve Accounting For Grants

Accounting records at the district do not comply with federal grant requirements. The general ledger and subsidiary control accounts do not agree to documentation supporting grant expenditures. The same conditions exist for state grants.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments: Federal Agency Implementation of Common Rule*, Subpart C. Section 20 (b)(2) states in part:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlay or expenditures, and income.

The accounting records are not sufficient for auditing individual federal or state programs, nor are they adequate for an audit performed under the Single Audit Act. Also, without adequate records the district is not able to prepare a Schedule of Federal Financial Assistance, required by federal regulations. Further, continued failure to comply with explicit federal and state requirements may jeopardize the district's eligibility for future federal and state financial assistance.

District officials have not been able to account for federal assistance programs in accordance with federal requirements and state programs due to a lack of an adequate accounting system.

We recommend that district officials make a priority of improving accounting for federal and state grants.